



# ***International Defense***

**SAM-C, BLOCK 307**



# ***Defense Acquisition University***

- **Offer 84 courses in 13 career fields**
  - Acquisition Logistics
  - Auditing
  - Contracting
  - Facilities Engineering
  - Contract Property Mgmt
  - Information Technology
  - Business, Cost Est & Fin Mgmt
  - Mfr, Prod, QA
  - Program Mgmt
  - Purchasing
  - Science & Technology
  - Sys Plan, RD&E
  - Test & Evaluation

- **Access DAU Catalog at:**

**<http://www.dau.mil/catalog/default.asp>**

**F-18**



**Tornado**



**F-7/MiG-21**



**MiG-29**



**F-16**



**Gripen JAS-39**



**Eurofighter**



**Mirage**



**F-15**







# ***Statutory Acquisition Authority***

- **Arms Export Control Act (AECA)**

- **Section 22 : Foreign Military Sales**

- The President may enter into contracts for the procurement of defense articles or defense services ... to any foreign country or international organization.

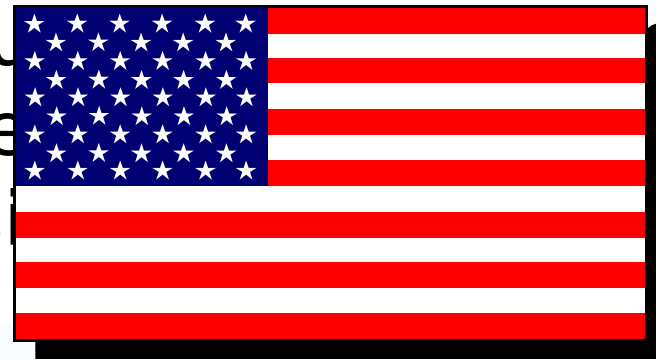
- **Section 38 : Direct Commercial Sales**

- The President is authorized to designate ... and to promulgate regulations for the import and export of such (defense) articles and services.



# ***Acquisition Policy***

- **SAMM Section C4.5.8: FMS or Direct Commercial**
  - DoD prefers that countries friendly to the US fill defense requirements with **US origin items**.
  - DoD is **generally neutral** as to whether a country satisfies requirements for origin defense articles or services. FMS or on a commercial basis.



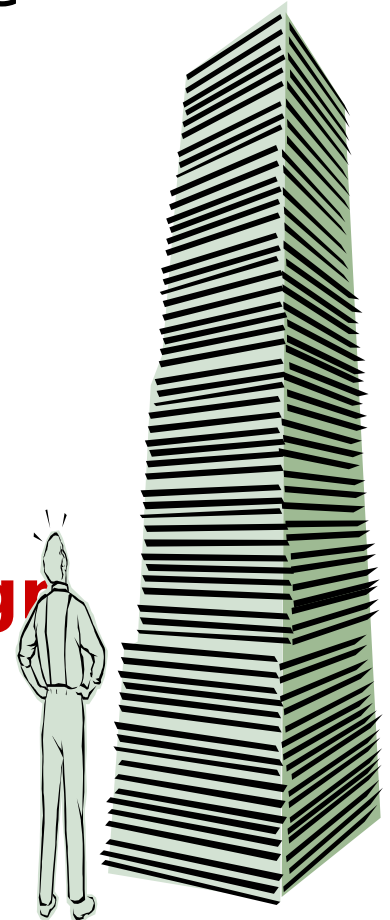


# ***Acquisition Policy***

## ***SAMM C6.3.1***

Acquisition for FMS purchasers will be in accordance with U.S./DoD regulations and procedures.

This affords the foreign purchaser the **same benefits and protection** that apply to DoD procurement and is one of the **principal reasons why foreign governments and international organizations prefer to procure through FMS** channels.





# ***Outline***

## **➤ Defense Acquisition System**

- ☐ What is it & how does it relate to FMS?**

## **➤ Contracting for FMS**

- ☐ How do we transform LOA requirements into delivered items/services?**

## **➤ Offsets under FMS**

- ☐ What are “Offsets” and what is the USG policy?**



# ***Defense Acquisition System***

## **Mandatory Management Process:**

**Translates User Needs And Technological Opportunities Into Reliable And Sustainable Systems That Provide Capability To The User.**







# Defense Acquisition Management Framework

**Determination  
of Mission  
Needs**



**A**

**B**

**C**

**Concept  
Decision**

**Concept  
Refinement**

**Technology  
Development**

**System  
Integration**

**System  
Demonstration**

**Design  
Readiness  
Review**

**System  
Development**

**Low  
Rate  
Initial  
Production**

**Production & Deployment**

**Full-Rate  
Prod &  
Deployment**

**Full Rate  
Production  
Decision  
Review**

**Sustainment**

**Disposal**

**Operations  
& Support**

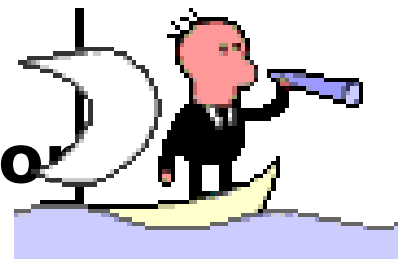
**International Armament  
Cooperation Programs  
USD (AT&L)**

**FMS  
Agreements  
USD (Policy)**



# ***System Acquisition Hierarchy of Alternatives***

1. **Commercially** available products from domestic or **international sources**, or the development of dual-use technologies;
2. Additional production/modification of previously-developed U.S. or **Allied military systems or equipment**;
3. **Cooperative development program with one or more Allied nations**;
4. New joint Service development; or
5. New Service-unique development.





# ***Acquisition Policy***

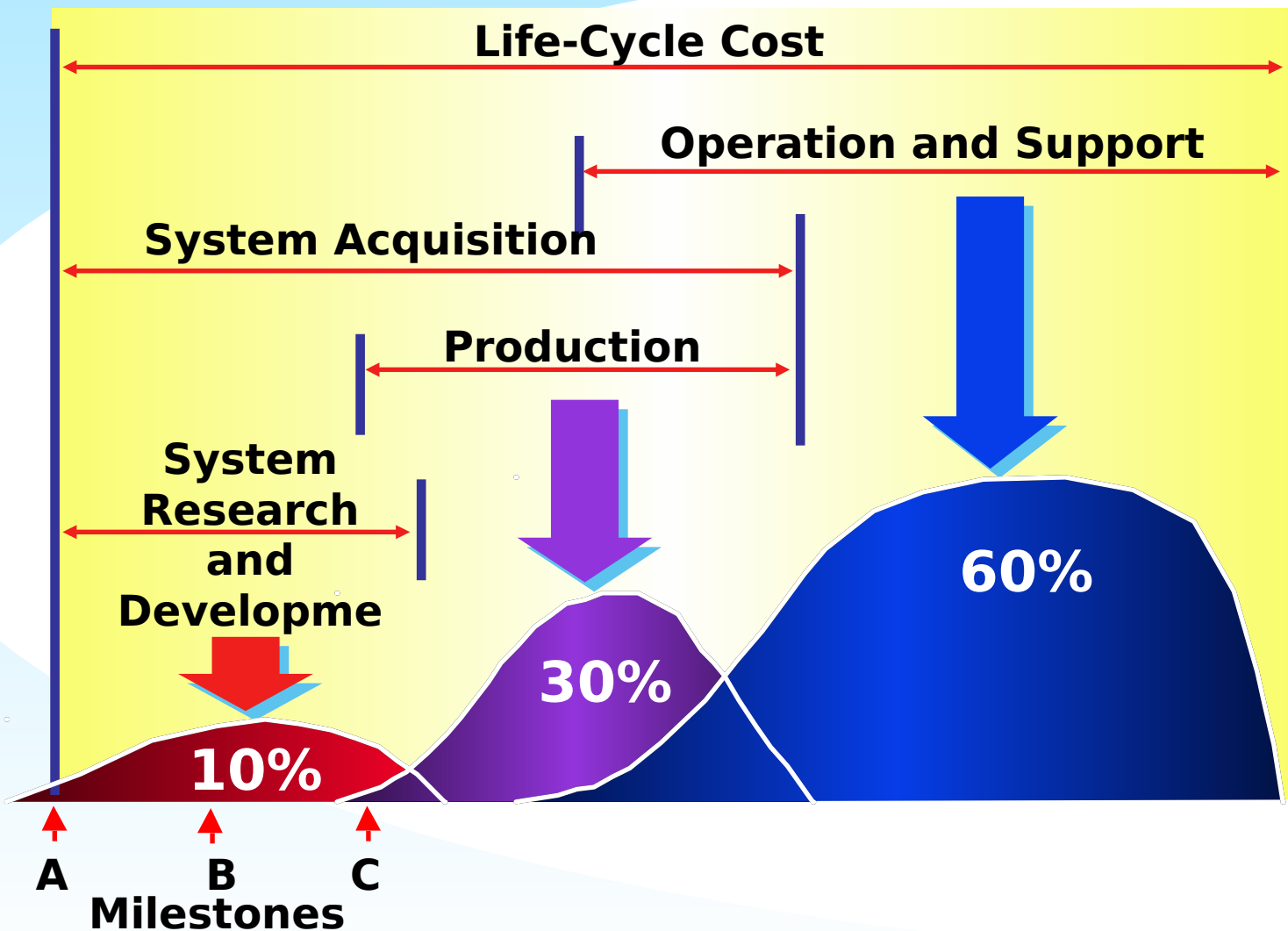
## ***SAMM C5.1.4.3.1***

- **Typically only sell systems approved for U.S. full rate production**
- **Major defense equipment with incomplete operational testing requires waiver**
  - **DSCA & USD(AT&L) approval required prior to responding to a request (Yockey Waiver)**
  - **If approved, additional LOA note to summarize potential effect if U.S. does not approve production**





# Typical DOD System Life-Cycle Cost





# ***Acquisition Strategy***

- **International Programs Security Handbook**
  - **Very few U.S. defense articles will not be sold or shared with an ally sometime during the article's life.**
  - **Planning for foreign participation must start at the early in the acquisition process**
    - **Access to technical data**
    - **Protection of underlying technology & system capabilities / vulnerabilities**



**FMS  
20XX ?**





# ***Acquisition Strategy***

## **Acquisition Planning For Possible Foreign Participation:**

- 1. Cooperative Opportunities Document (COD)**
- 2. Program Protection Plan (PPP)**
- 3. Technology Assessment/Control Plan (TA/CP)**
- 4. Delegation of Disclosure Authority Letter (DDL)**
- 5. Program Security Instruction (PSI)**



# ***Lesson Outline***

## ➤ **Defense Acquisition System**

- ❑ What is it & how does it relate to FMS?

## ➤ **Contracting for FMS**

- ❑ **How do we transform LOA requirements into delivered items/services?**

## ➤ **Offsets under FMS**

- ❑ What are “Offsets” and what is the USG policy?



# ***Contracting Outline***

- **Policy Overview**
- **Procurement Methods**
- **Types Of Contracts**
- **Special FMS Contract Considerations**
- **Contract Administration, Quality Assurance, and Contract Auditing**



# ***Acquisition Defined***

**The process of acquiring, by contract, the supplies and services required by an organization to fulfill its mission.**

**FAR 2.101**



# ***Acquisition Policy***

## **SAMM C4.5.14**

DoD policy calls for a determination to be made that the sale of a defense item will **not degrade US defense** efforts by taking needed equipment from US stockpiles.







# ***Foreign Military Sales Buyer/Seller Relationships***

**United States Government**

**Privity**

**LOA**

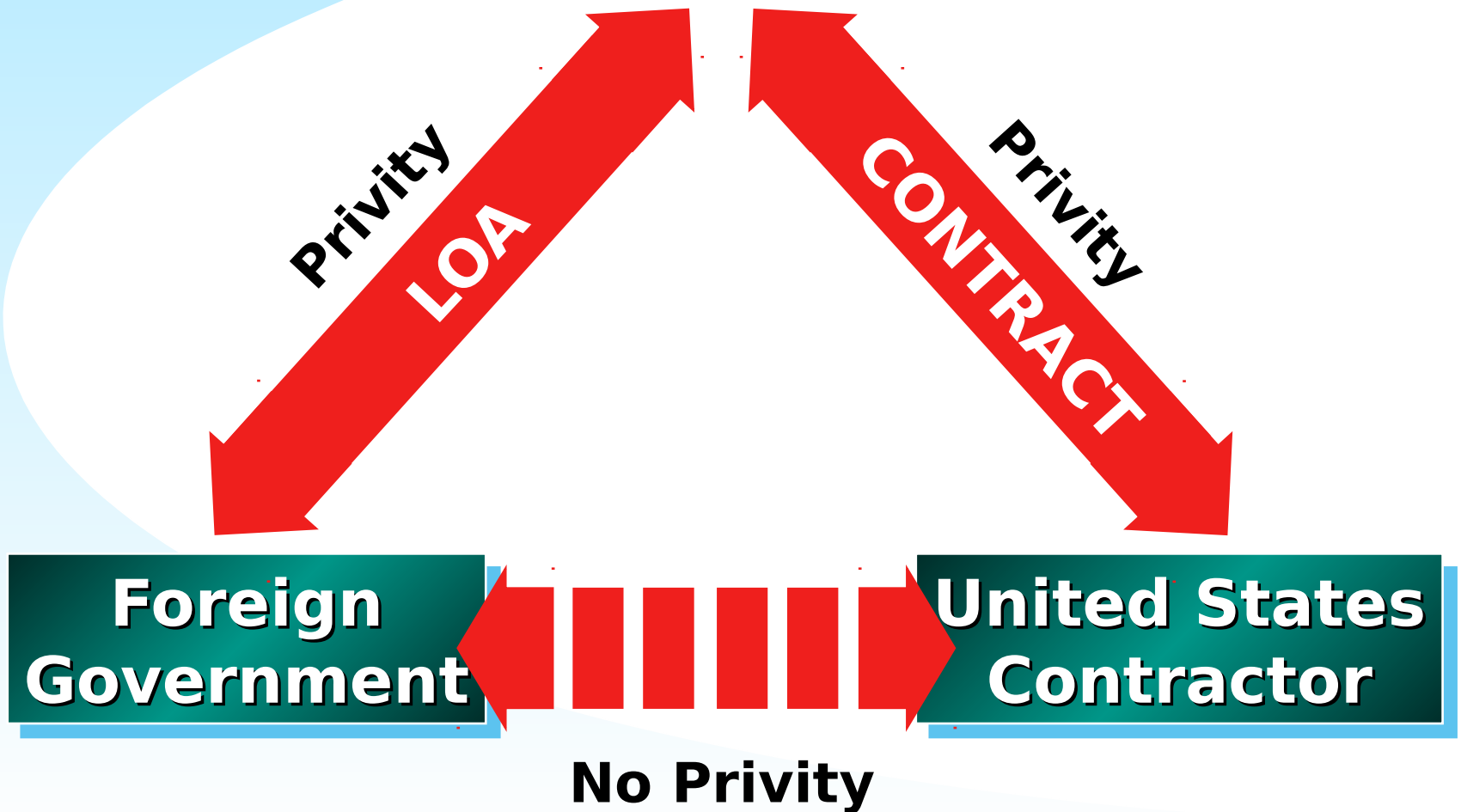
**Privity**

**CONTRACT**

**Foreign  
Government**

**United States  
Contractor**

**No Privity**





# ***LOA / Contract Relationships***

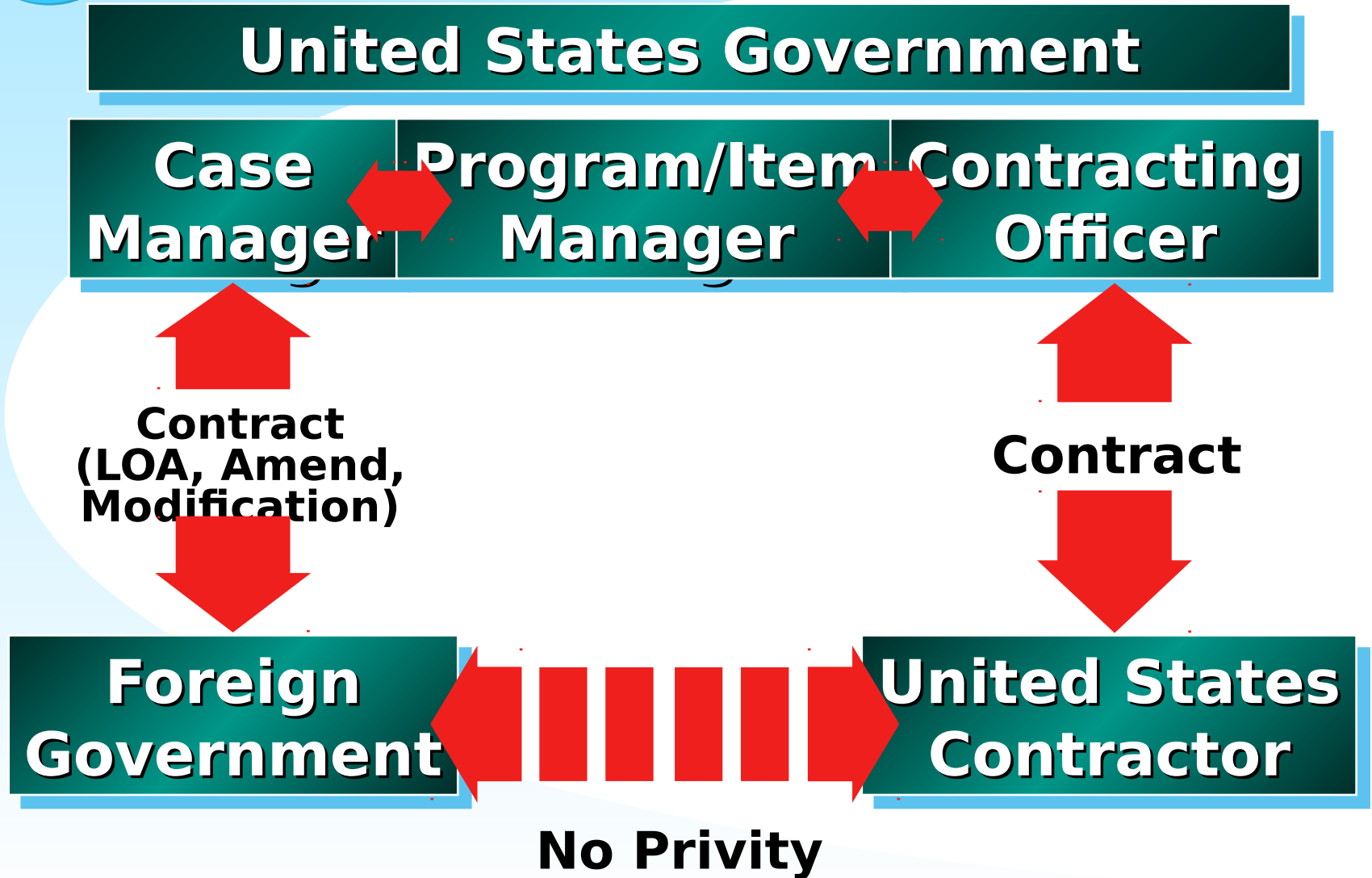
## ***SAMM C6.3.5***

**Discussions with the foreign purchaser must be undertaken during the development of the LOA ... to assure that the contracting community has all the data required to award a contract consistent with contracting regulations and the foreign country data.**





# ***Foreign Military Sales Buyer/Seller Relationships***





# ***Acquisition Policy***

- **LOA General Terms & Conditions, Sec 1.2**

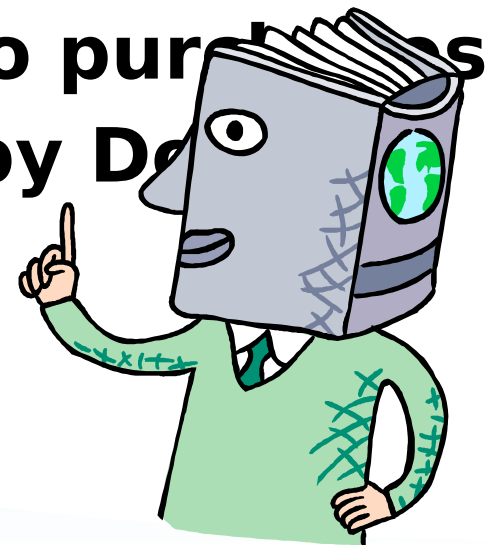
- The USG will furnish the items from its stocks and resources, or will procure them under terms and conditions consistent with **DoD regulations and procedures.**
- When procuring for the Purchaser, DoD will, in general, employ the **same** contract clauses, the **same** contract administration, and the **same** quality and audit inspection procedures as would be used in procuring for itself.



# ***Acquisition Authority***

**SAMM C6.3.1: Federal Acquisition Regulation** provisions applicable to the DoD also **apply to FMS procurements.**

**DFARS Subpart 201.104: The Defense Federal Acquisition Regulation Supplement (DFARS)** apply to purchases and contracts by DoD for activities made in support of **foreign military sales.**







# ***Acquisition Authority***

- **FAR** - Federal Acquisition Regulation

**<http://www.arnet.gov/far/>**

- **DFARS** - Defense Federal Acquisition Regulation Supplement

**<http://www.acq.osd.mil/dp/dars/dfars/dfars.html>**



# ***Procurement Methods***

- **Competitive Method**
  - Normal or default procurement method
  - Three types:
    - Simplified Acquisition Procedures
    - Sealed Bidding
    - Competitive Proposals
- **Noncompetitive Method**
  - Exception to norm



# ***Acquisition Policy***

- **LOA Standard Terms & Conditions, Sec 1.2**
  - **Unless the Purchaser has requested, in writing, that a sole source contractor be designated, and this LOA reflects acceptance** of such designation by DoD, the Purchaser understands that **selection of the contractor source to fill requirements is the responsibility of the USG**, which will select the contractor on the **same basis** used to select contractors for USG requirements.



# ***Sole Source Acquisition***

**A contract for the purchase of supplies or services that is entered into or proposed to be entered into by agency after **soliciting and negotiating with only one source.****

**FAR 2.1**





# ***FMS Sole Source***

- **Customer Request Based On Objective Needs Per **SAM****

**1. Faster Delivery / Urgency**

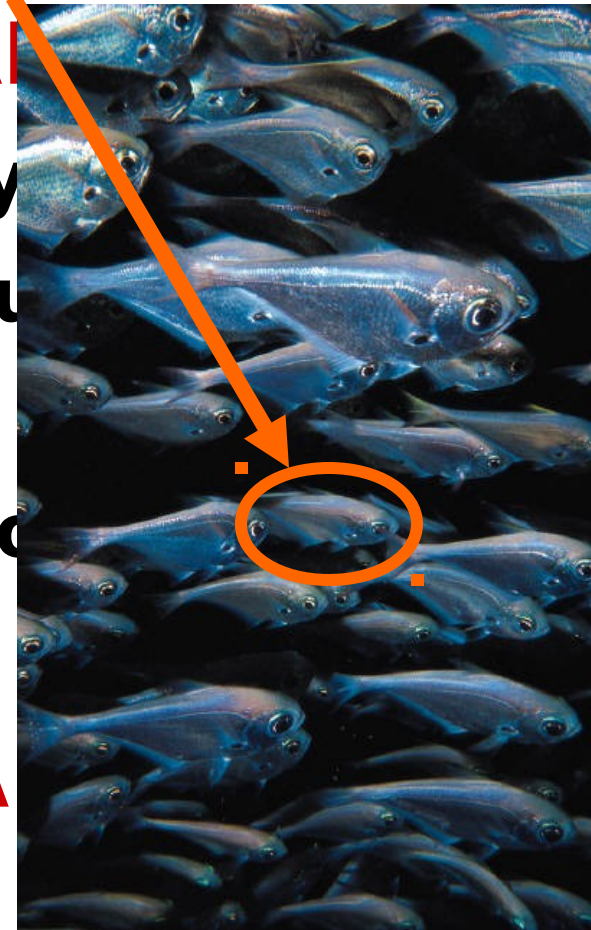
**2. Specific Nonstandard Source**

**3. History With Vendor**

**4. Customer Source Selection**

**5. Standardization**

- **Designated Within **LOA****



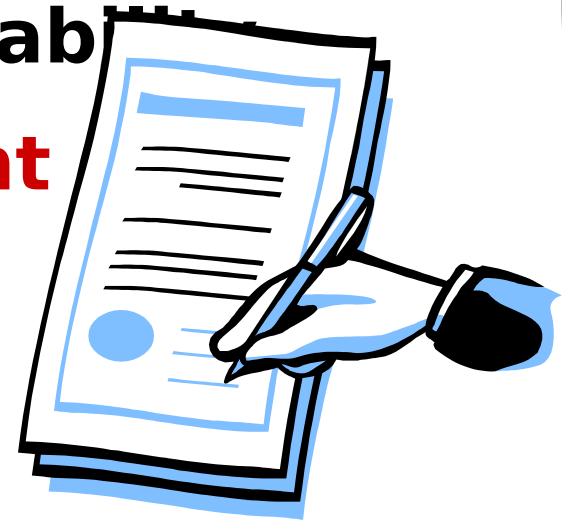




# ***Procurement Methods***

## **FAR 6.3 - Exceptions for Noncompetitive Contracts**

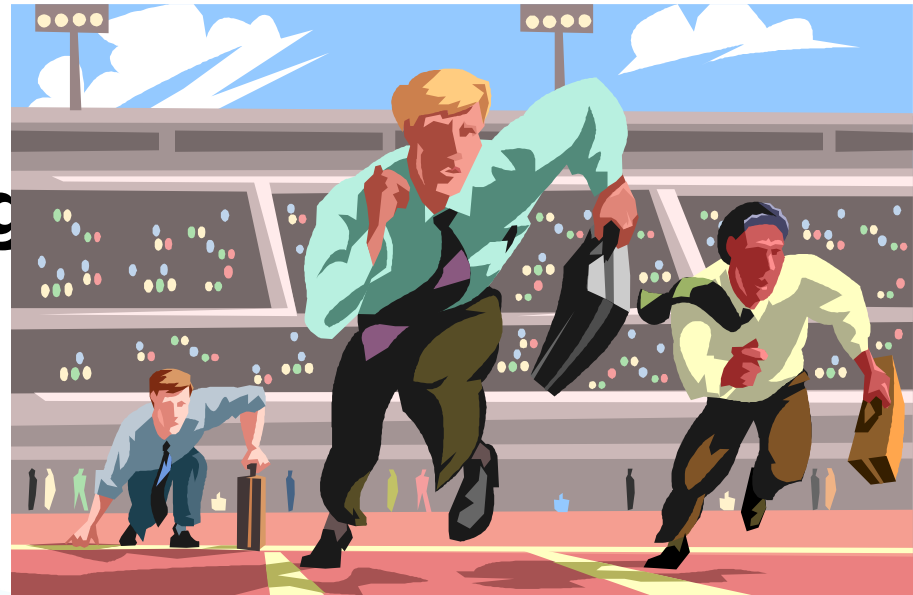
- 1. Single Responsible Source**
- 2. Unusual & Compelling Urgency**
- 3. Maintain Industrial Capabilities**
- 4. International Agreement**
- 5. Required By Law**
- 6. National Security**
- 7. Public Interest**





# ***Procurement Methods***

- **Competitive Method**
  - **Simplified Acquisition Procedures**
  - **Sealed Bidding**
  - **Negotiation**

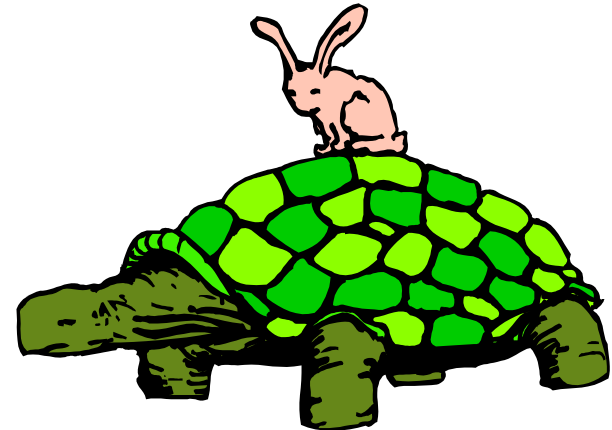




# ***Simplified Acquisition***

***FAR 13***

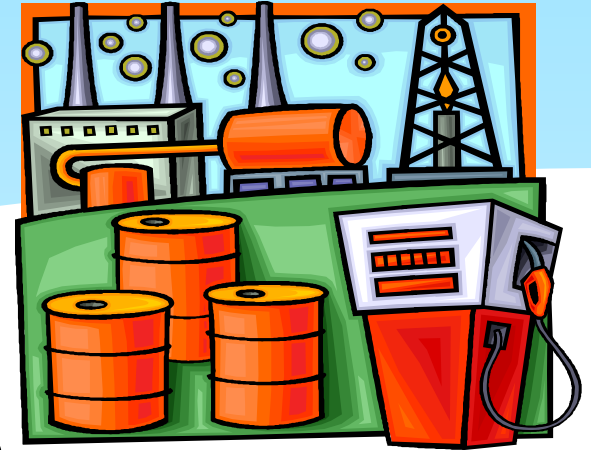
- **Criteria:**
  - **Less than \$100K or \$5M if commercial item**
- **Process:**
  - **Solicit quotes**
  - **Issue order**





# ***Sealed Bidding***

## ***FAR 6.401(a)***



**Use this method when:**

- **Time permits the solicitation, submission, and evaluation of sealed bids**
- **Award will be made on the basis of price and other price-related factors**
- **Not necessary to conduct discussions with the responding offerors about their bids**
- **There is reasonable expectation of receiving more than one sealed bid**

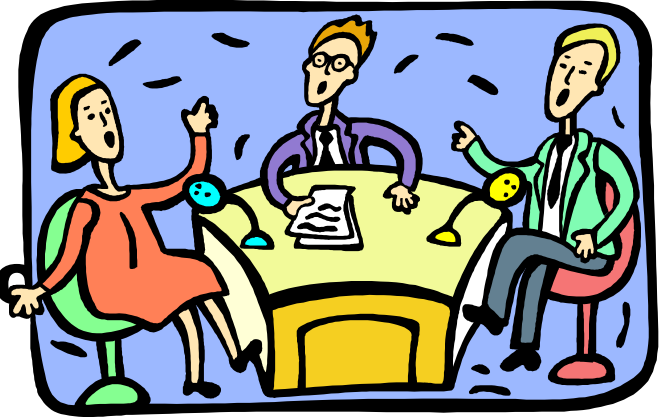


# ***Negotiation***

***FAR 15***

**Use this method when:**

- **Simplified acquisition or sealed bid methods are not appropriate**
- **Need to conduct *discussions* with offerors relative to proposed contracts**
  - Proposed *products may differ* between offerors
- **Anticipate award on *factors other than price***
  - Evaluate *qualitative value* of different products





# ***Negotiation***

## ***FAR 15***

Northrop-McDonnell Douglas YF-23  
USAF Museum Photo Archives



Lockheed-Boeing-General Dynamics YF-22 "Raptor"  
USAF Museum Photo Archives

**YF-23**

**Versus**

**YF-22**

**Technical Evaluation  
+ Business (cost)**

**Evaluation**

**BEST VALUE SELECTION**





# ***"Responsible" Contractors***

## ***FAR 9.104***

***Must possess or have ability to obtain:***

- 1. Adequate financial resources**
- 2. Capacity to fulfill delivery schedule**
- 3. Satisfactory prior performance record**
- 4. Necessary business and technical skills**
- 5. Necessary equipment and facilities**
- 6. Record of integrity and business**





# ***Evaluation Of Quotes/Bids/Proposals***

**R  
E  
S  
P  
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S  
I  
B  
L  
E**

## **Evaluation**

**Simplified Acquisition  
Quote**

Price and other  
factors

**Bid**

Responsive bidder  
Lowest price

**Proposal**

Technical evaluation  
Business & cost evaluation  
(Doesn't have to be lowest bidder)

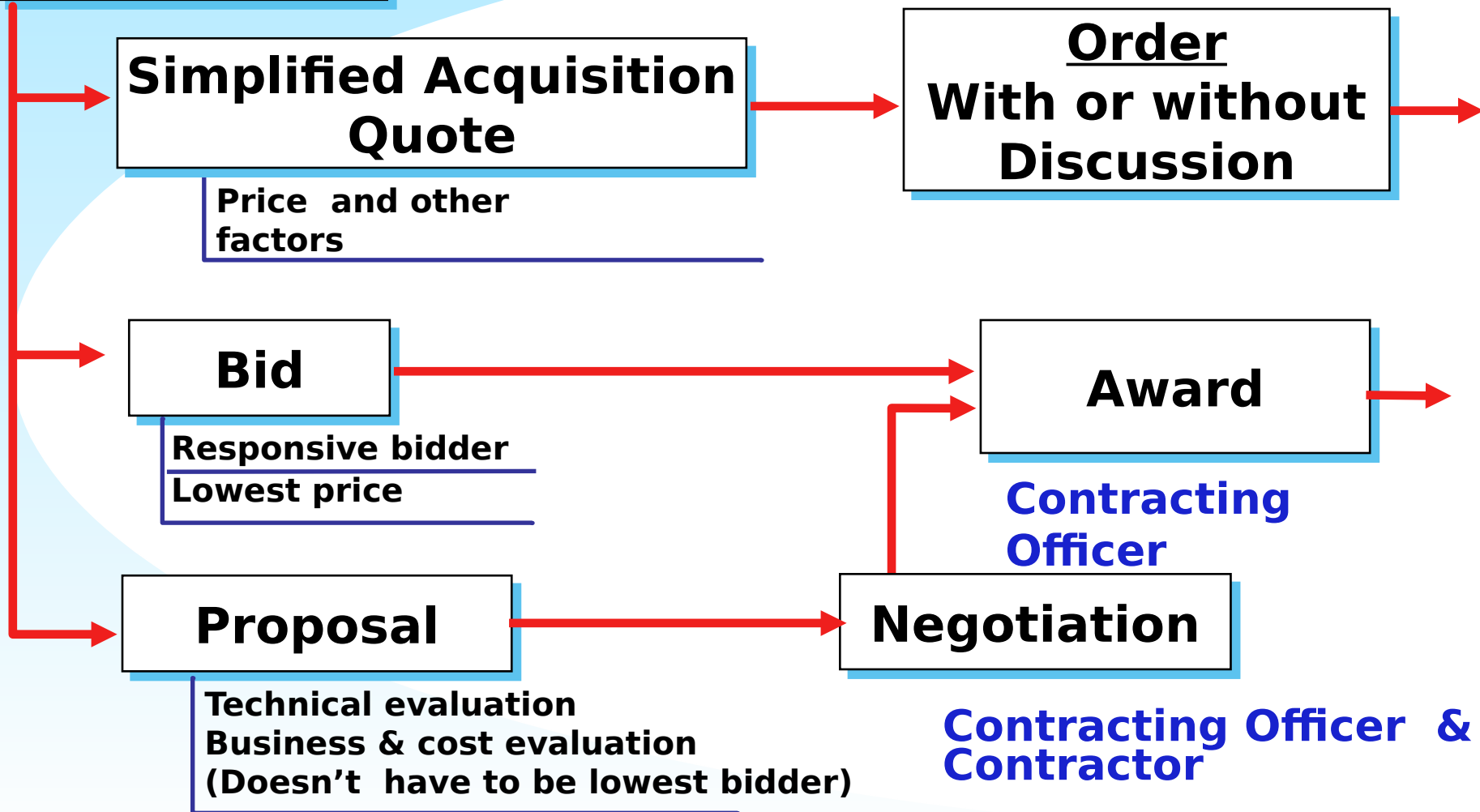
**Order  
With or without  
Discussion**

**Award**

**Contracting  
Officer**

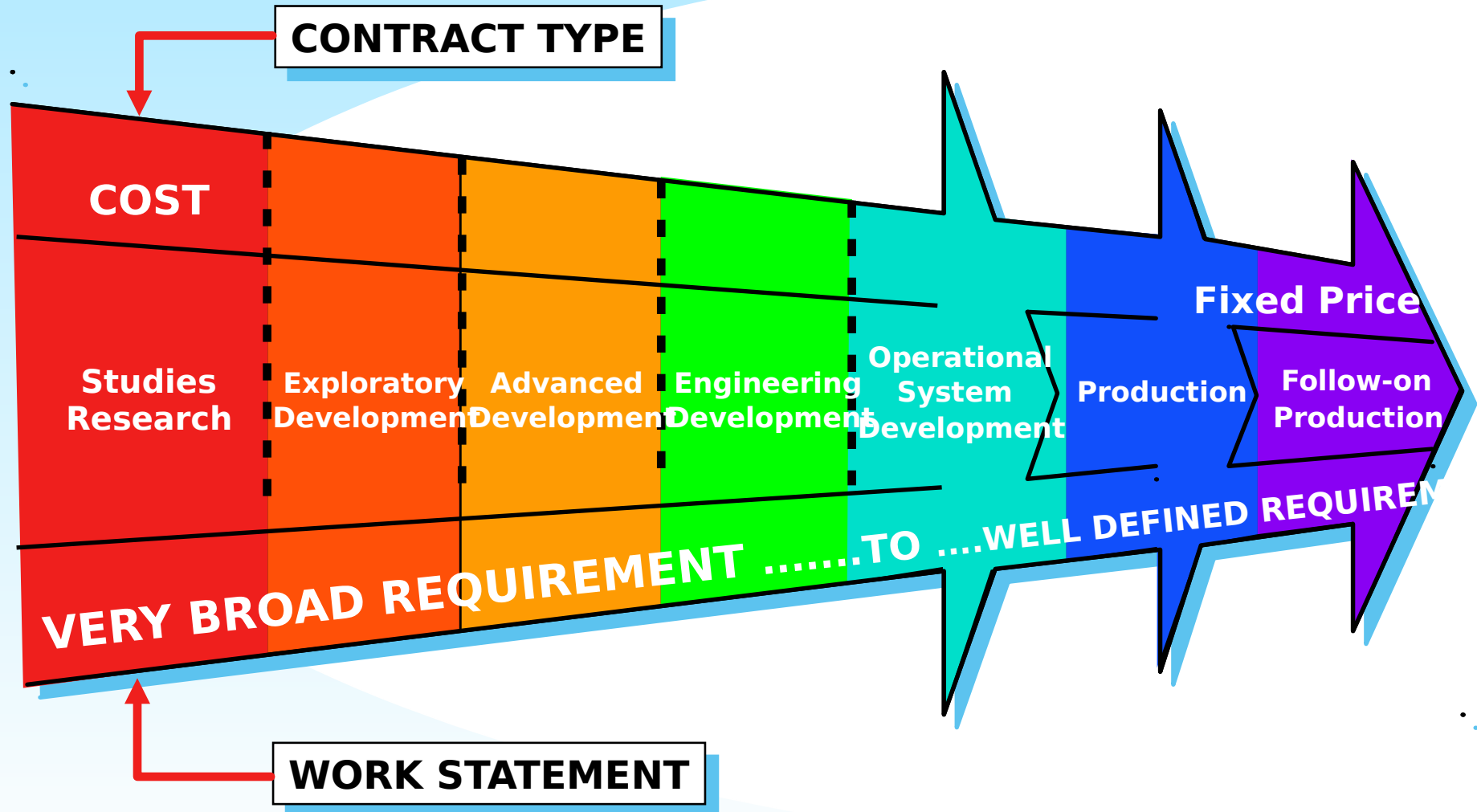
**Negotiation**

**Contracting Officer &  
Contractor**





# ***Spectrum of Contract Types***





# ***Contract Types***

- **Simplified Acquisition Procedures -**
  - **Fixed-price purchase orders (FAR 13.302)**
- **Sealed Bidding -**
  - **Firm-fixed-price or fixed-price with economic price adjustment (FAR 16.102)**
- **Negotiation -**
  - **Any type or combination of types that promotes the Government's interest (FAR 16.102)**



# ***Special FMS Contract Programs***

- **DoD contract process, at times, cannot provide timely support for FMS**
  - **Examples: Nonstandard, Low Quantity**
- **Commercial buying service authorized for these “difficult” procurements (SAMM C6.4.4)**
  - **Parts Repair Ordering System II (PROS II)**
    - **USAF & NAVY**
  - **Simplified Nonstandard Acquisition Process (SNAP)**
    - **ARMY**



<http://www.acq.osd.mil/dp/dars/dfars/html/r20031114/taochtml.htm>

PART 225 - FOREIGN ACQUISITION

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SUBPART 225.0 -

SUBPART 225.1 - BUY AMERICAN ACT--SUPPLIES

SUBPART 225.2 - BUY AMERICAN ACT--CONSTRUCTION MATERIALS

SUBPART 225.3 - DELETED

SUBPART 225.4 - TRADE AGREEMENTS

SUBPART 225.5 - EVALUATING FOREIGN OFFERS--SUPPLY CONTRACTS

SUBPART 225.6 - DELETED

SUBPART 225.7 - PROHIBITED SOURCES

SUBPART 225.8 - OTHER INTERNATIONAL AGREEMENTS AND COORDINATION

SUBPART 225.9 - CUSTOMS AND DUTIES

SUBPART 225.10 - ADDITIONAL FOREIGN ACQUISITION RESTRICTIONS

SUBPART 225.11 - SOLICITATION PROVISIONS AND CONTRACT CLAUSES

SUBPART 225.70 - AUTHORIZATION ACTS, APPROPRIATION ACTS, AND OTHER STATUTORY

RESTRICTIONS ON FOREIGN ACQUISITION

SUBPART 225.71 - OTHER RESTRICTIONS ON FOREIGN ACQUISITION

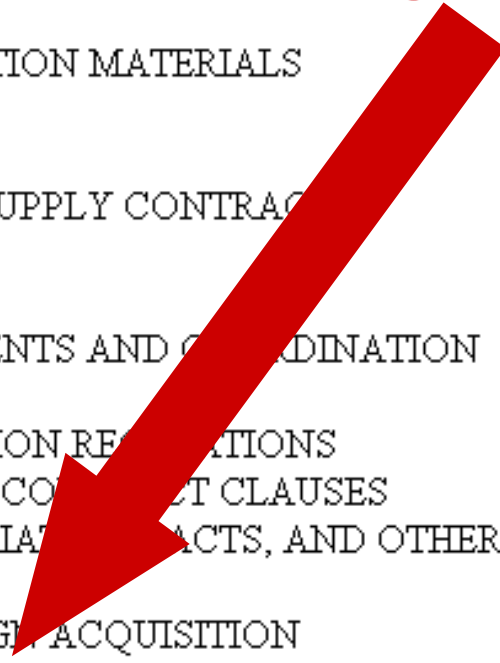
SUBPART 225.72 - REPORTING CONTRACT PERFORMANCE OUTSIDE THE UNITED STATES

SUBPART 225.73 - ACQUISITIONS FOR FOREIGN MILITARY SALES

SUBPART 225.74 - ANTI-TERRORISM/FORCE PROTECTION POLICY FOR DEFENSE CONTRACTORS

OUTSIDE THE UNITED STATES

**SUBPART 225.73  
ACQUISITIONS FOR FOREIGN  
MILITARY SALES**





# ***Acquisitions for FMS***

## ***DFARS 225.7300***

- **225.7301 General**
- **225.7302 Procedures**
- **225.7303 Pricing**
- **225.7304 FMS Customer Involvement**
- **225.7305 Limitation of Liability**
- **225.7306 Options for FMS**
- **225.7307 Offsets**
- **225.7308 Mandatory Contract Clauses**



# ***Contracts for FMS***

## ***DFARS 225.7301***

- **Solicitations will separately identify known FMS requirements and the FMS customer.**
- **Contracts will be marked “FMS Requirement” to include the FMS customer and the FMS case identifier code.**



# ***Contracting Officer Role***

## ***DFARS 225.7302***

- Only individual with legal authority to commit the USG to a contract - FAR 1.6
- Aids the military department in preparing LOA:
  - Supports generating price & availability data
  - Identifies & explains any unusual contractual requirements or requests for deviations
- Communicates between case manager & contractor





# ***LOA / Contract Relationships***

## ***SAMM C6.3.5***

**The DoD component responsible for the LOA will assure sufficient details are included in the LOA to enable the contracting officer to negotiate and award a contract without foreign country representation or direct involvement in formal negotiation process.**





# ***Cost Principles***

## ***FAR 31.2***

- 1. Allowable: Costs allowed by contract and by FAR.**
- 2. Allocable: Costs assignable or chargeable to one or more cost objectives based on relative benefits received or other equitable relationship.**
- 3. Reasonable: Costs in their nature and**



# ***Acquisition Pricing for FMS***

***DFARS 225.7303***

- **Use same pricing principles as other DoD contracts**
- **FMS contract price may be different than DoD prices due to the **allowability** of certain costs**





# ***Acquisition Pricing for FMS***

## **DFARS 225.7303-2**

**Recognize the reasonable & allocable **cost of doing business with an international customer**, even though costs might not be recognized in the same amounts in DoD only contracts**



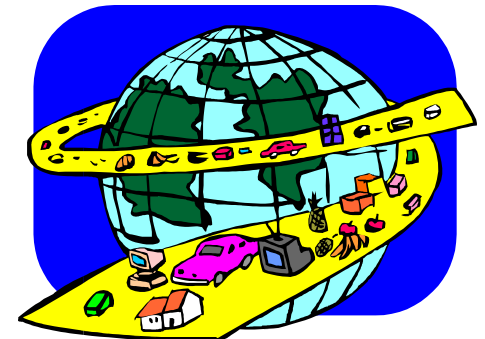


# ***Acquisitions for FMS***

## ***DFARS 225.7303-2***

### **International cost of doing business examples:**

- **Maintaining international sales/service organizations**
- **Sales promotions, demonstrations, travel**
- **Configuration studies & related technical services**
- **Product support and post delivery service**
- **Special / unusual costs subject to advance understanding**
- **Offset costs**





# ***Contingent Fees***

## ***DFARS 225.7303-4***

- **Definition: any commission or other fee where payment depends upon successfully securing a Government contract.**
- **Allowable if:**
  - **Determined to be fair & reasonable**
  - **Paid to a bona-fide employee or bona-fide agency maintained by the prospective contractor to secure business**
- **Cannot exceed \$50K unless approved in writing by customer before contract award.**



# ***Contingent Fees***

## ***DFARS 225.7303-4***

**LOAs issued to following countries state that all resulting contracts must exclude the payment of contingent fees unless approved in writing before contract award**

- **Australia**
- **Egypt**
- **Greece**
- **Israel**
- **Japan**
- **Jordan**
- **Korea**
- **Kuwait**
- **Pakistan**
- **Philippines**
- **Saudi Arabia**
- **Taiwan**
- **Thailand**
- **Turkey**
- **Venezuela**
- **AF**



# ***Grant FMFP***

## ***DFARS 225.7303-5***

- **FMS acquisitions wholly financed with nonrepayable funds must be priced on same costing basis as procurements of like items by DoD for its own use**
- **Direct costs associated with meeting additional or unique requirements of foreign customers are allowable**





# ***Customer In Contract Process***

***DFARS 225.7304***

- **FMS Customer may:**
  - Request **sole source prime** and **subcontractors**
  - Propose **additional sources** but cannot eliminate
- **At contracting officer discretion, customer can participate in discussions with industry on:**
  - **Technical Specifications**
  - **Delivery Schedules**
  - **Price/Performance Tradeoffs**
  - **Other Requirements Unique to FMS Purchaser**





# ***Customer In Contract Process***

***DFARS 225.7304***

- **FMS Customer **Cannot:****
  - **Observe Negotiations Involving Cost or Pricing Data**
    - **Deviations must be Granted By USD (AT&L)**
  - **Receive contractor proprietary data unless approved by contractor**
  - **Direct exclusion of specific firms**
  - **Interfere with prime contractors placement of subcontracts**





# ***Release of Contract Data***

## ***SAMM C6.3.6.2***

- **Contractual obligations between the USG and FMS purchaser are contained in LOA**
- **FMS purchaser has no privity of contract and therefore no legal right to the contract**
- **Release can be considered if contract is unclassified and only covers purchaser's requirement**
- **If contract is classified or contains other requirements, release is not authorized**





## ***Contract Administration Services (CAS)***

**.65% - Contract admin**

**.65% - Quality control**

**.2% - Contract audit**

**.2% - OCONUS**

- **Reciprocal CAS agreements with some countries (SAMM C9.6.2)**



# ***Contract Administration***

## ***FAR 42***

- **Activities accomplished in or near a contractor's plant for the benefit of the USG which are necessary to the performance of a contract.**
- **Normally performed by Defense Contract Management Agency**



## DCMAE

Atlanta  
Baltimore  
Birmingham  
Boeing Philadelphia  
Boston  
Cleveland  
Dayton  
Detroit  
GE  
Hartford  
Indianapolis  
Lockheed Martin  
Long Island  
New York  
**Northrop Grumman**  
    > St Augustine  
    > Baltimore  
Orlando  
Philadelphia  
Pittsburgh  
Pratt Whitney  
Raytheon  
St. Petersburg  
Sikorsky  
Springfield  
Syracuse



## Welcome To DCMA East

Contacts:	
Commander	(617) 753.4306
Deputy Commander	(617) 753-4307
Chief of Staff	(617) 753-4308
Command Security Office	(617) 753-4300
Contract Operations	(617) 753-4093
Program Integration	(617) 753-4016
Information Technology	(617) 753-3273
Counsel	(617) 753-4269
Human Resources	(617) 753-4037
Financial & Business Operations	(617) 753-4456
Aircraft Operations	(617) 753-4208
Small Business	(617) 753-4318

<http://www.dcma.mil/DCMAE/index.html>



# DCMA

DEFENSE CONTRACT MANAGEMENT AGENCY

January 29, 2003

## DCMAW

Chicago  
Dallas  
Denver  
Phoenix  
San Antonio  
San Diego  
San Francisco  
Santa Ana  
Seattle  
St. Louis  
Twin Cities  
Van Nuys  
Wichita

Bell Helicopter  
Boeing  
Lockheed Martin  
Northrop Grumman  
Raytheon  
Stewart & Stevenson  
Sealy  
Thiokol



## Welcome To DCMA West

### Contacts:

Commander, DCMAW	(310) 900-6610
Deputy Commander, DCMAW	(310) 900-6011
Chief of Staff	(310) 900-6012
Command Security Office	(310) 900-6055
Contract Operations	(310) 900-6500
Program Support	(310) 900-6579
Information Technology	(310) 900-6100
Counsel	(310) 900-6200
Human Resources	(310) 900-6301
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Aircraft Operations	(310) 900-6503
Small Business	(310) 900-6025

<http://www.dcma.mil/DCMAW/index>

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Best viewed using [Internet Explorer](#) v5.5 or higher at 800x600 resolution. [Contact Webmaster](#).

## DCMAI

Americas  
Middle East  
Northern Europe  
Pacific  
Southern Europe



## Welcome To DCMA International

### Contacts:

Commander	(703) 428-1794
Deputy Commander	(703) 428-1799
Security Office	(703) 428-1798
Contract Operations	(703) 428-1810
Program Integration	(703) 428-1814
Information Technology	(703) 428-1792
General Counsel	(703) 428-1812
Financial & Business Operations	(703) 428-1808
Aircraft Operations	(703) 428-1803
Small Business	(703) 428-1766

<http://www.dcma.mil/DCMAI/index.h>

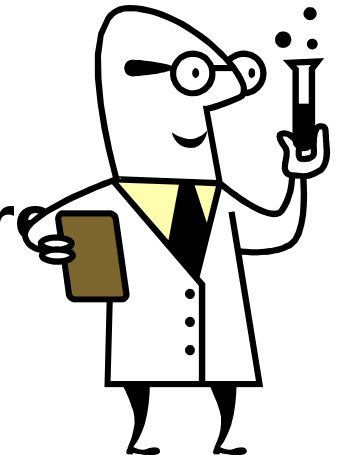




# ***Quality Assurance***

## ***FAR 46***

- **USG actions necessary to determine that the supplies or services conform to contract requirements.**
- **Procuring Contracting Officer identifies the specifications for inspection, testing, and other quality requirements**
- **Administrative Contracting Officer applies quality assurance procedures**
- **Performed at any stage of manufacture or performance of services**





# ***Contract Audit***

## ***FAR 42***

- Provide **financial information and advice** to government procurement officers
- Review control system established by contractors
- Examine contractor's statements of actual and estimated costs
- Performed by the Defense Contract Audit Agency (DCAA)





- What's New
- About DCAA
  - Products and Services
  - Strategic Plan
  - Staff
  - History
  - Organization
- Audit Guidance
- DCAA Publications
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- Links to Other Web Sites
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# DCAA

**Dedicated to providing timely and responsive audits and financial advisory services**



**In Support of our National Defense**

**<http://www.dcaa.mil/>**

The Defense Contract Audit Agency, under the authority, direction, and control of the [Under Secretary of Defense \(Comptroller\)](#), is responsible for performing all contract audits for the Department of Defense, and providing accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. DCAA also provides contract audit services to some other Government Agencies



# ***FMS Contracting Process***

## **Customer**

**Requirement  
Determination**

## **Case Manager**

**LOA  
Preparation**

**Case  
Implementation**

## **Inventory Mgr or Program Mgmt Office**

**Procurement  
Requests**

## **Contracting Officer**

**Solicitation**

**Evaluation**

**Negotiation**

**Selection  
of Source**

**Award**

## **Administrative Contracting Officer**

**Assignment**

**Control  
System**

**Performance  
Measurement**

**Contract  
Modifications**

**Completion  
Audit  
Payment/  
Closeout**

## **Case Manager**

**LOA Case Closure**



# ***Lesson Outline***

## ➤ **Defense Acquisition System**

- ❑ What is it & how does it relate to FMS?

## ➤ **Contracting for FMS**

- ❑ How do we transform LOA requirements into delivered items/services?

## ➤ **Offsets under FMS**

- ❑ **What are “Offsets” and what is the USG policy?**



**F-18**



**Tornado**



**F-7/MiG-21**



**MiG-29**



**F-16**



**Gripen JAS-39**



**Eurofighter**



**Mirage**



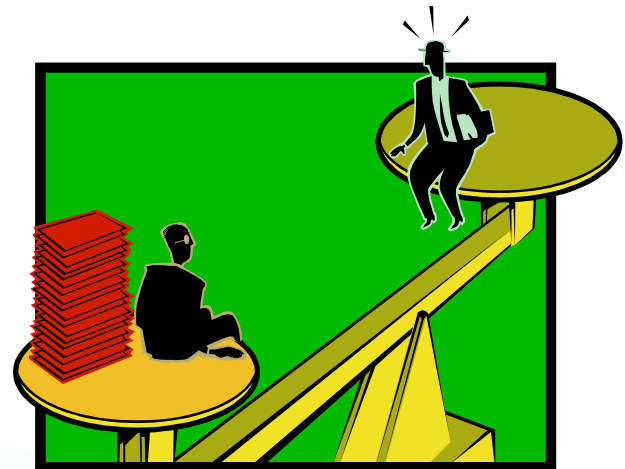
**F-15**





# Offsets

**Commercial compensation practices demanded by a foreign purchaser and agreed to by a contractor that obligate the contractor to perform actions that will “Offset” the outflow of money required by the contract for sale.**





# ***Foreign Military Sales Buyer/Seller Relationships***

**United States Government**

**Privity**

**LOA**

**Privity**

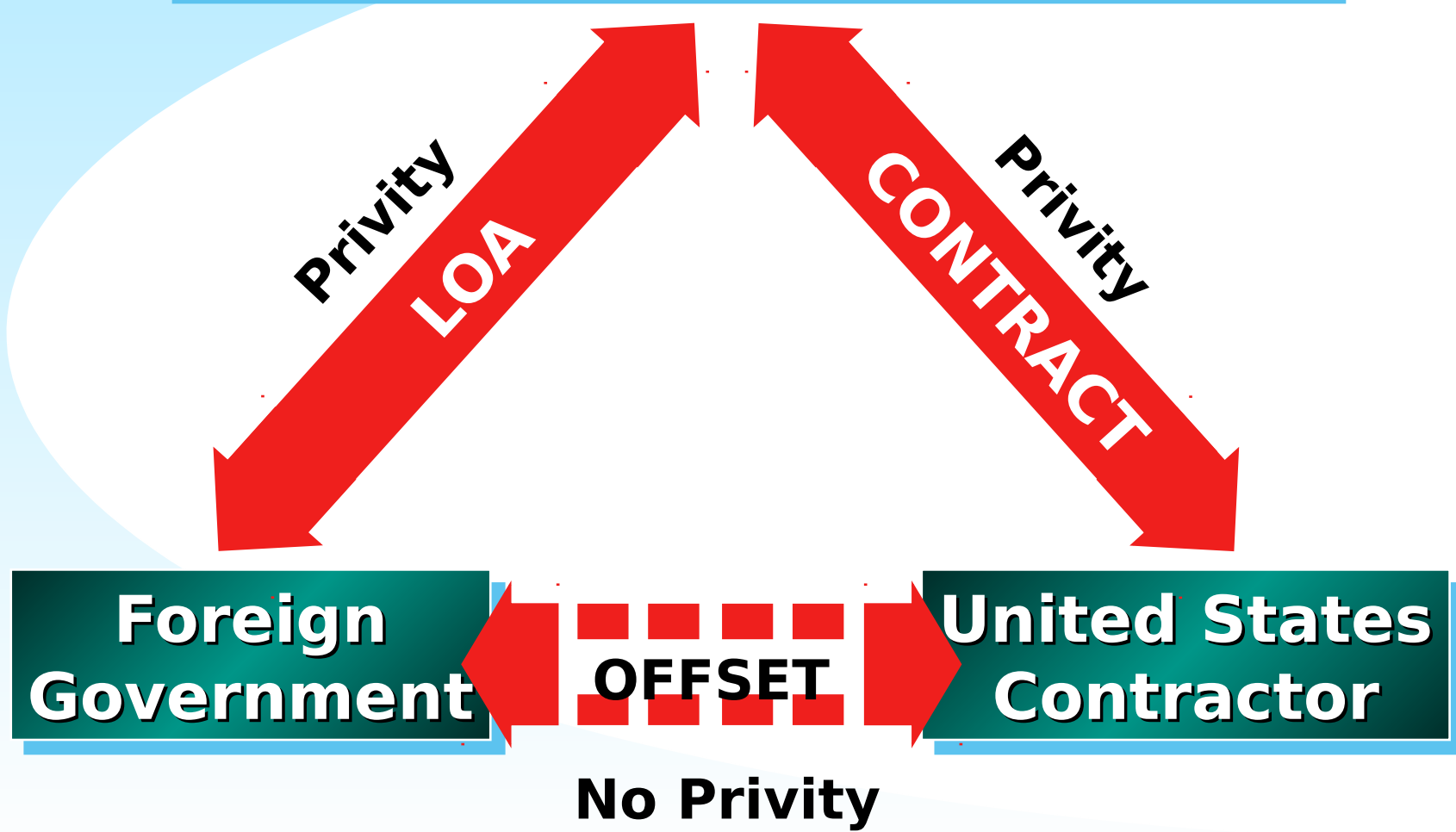
**CONTRACT**

**Foreign  
Government**

**OFFSET**

**United States  
Contractor**

**No Privity**







# Offsets

The objectives of a government making a foreign arms purchase often go beyond procuring arms at cost-effective prices, and include:

- Political acceptability of a foreign source
- Impact on domestic defense & non-defense industries
- Obtaining advanced military and commercial technology
- Domestic employment
- Other domestic economic goals





# ***Types of Offsets***

**Direct** = Compensation in goods related to defense system being sold

- Co-production, buybacks, technology transfer

**Indirect** = Compensation in goods unrelated to the defense system sold

- Unrelated procurements, invest in non-



# ***Offset Example***

## **Offset Terms**

US Firm: Fighters-R-US

Quantity: 10 EA F-99 Fighters

Total Sale: \$500M

Bandaria Requires 100% Offset

Agreement Period: 5 years

Offset Obligation: \$500M



# Offset Example

## DIRECT OFFSETS

	Value	Multiplier	Offset Value
<b>Technology Transfer</b>			
Fighter Repair & Maint Tech	30	6	180
<b>Co-Production</b>			
Bandaria Firm Subcomponents	220	N/A	220
<b>Direct Total</b>			<b>400</b>



# ***Offset Example***

## **INDIRECT OFFSETS**

	<b>Value</b>	<b>Multiplier</b>	<b>Offset Value</b>
<b>Purchase</b>			
Marble Statues	35	N/A	35
<b>Financing</b>			
Invest in Bandaria Industry	20	N/A	20
<b>Technology Transfer</b>			
Submarine Technology	30	N/A	30
<b>Marketing</b>			
Market Fish in US	15	N/A	15



# ***Offset Example***

Direct Offsets	400
Indirect Offsets	100
Total Offset	500

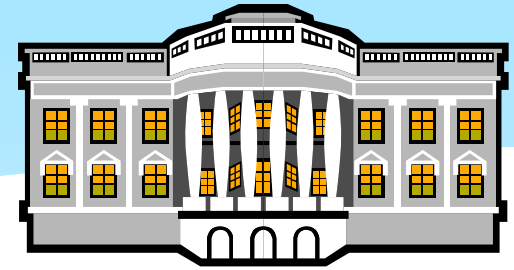


# ***Offset Costs***

- **DFARS allows contractors to recover offset costs *only when*:**
  - **FMS contracts are based on LOAs financed wholly by purchaser *cash or repayable credits*.**
- **Offset costs are included in the LOA line item unit cost**
- **USG contracting officer responsible for determining the reasonableness of offset costs claimed by contractor**



# ***Presidential Offset Policy***



- **No USG agency shall encourage, enter directly into, or commit U.S. firms to any offset arrangement**
- **Negotiations/decisions regarding offsets reside with the companies involved.**
- **USG funds shall not be used to finance offsets**
- **Exceptions to this policy require presidential approval through the National Security Council**





# ***Special LOA Offset Note***

**All LOAs for non-competitive procurements will contain the following note :**

**"The DoD is not a party** to any offset agreements / arrangements which may be **required by the purchaser** in relation to sales made in this LOA and assumes **no obligation to administer or satisfy** any offset requirements or bear any of the associated costs. To the extent that the Purchaser requires offsets in conjunction with this sale, **offset costs may be included in the price of contracts** negotiated under this LOA. If the purchaser desire **visibility** into these costs, this should be **discussed with the contractor** at the time the offset agreement is signed. The **contracting officer will ensure** that the offset costs priced into the FMS contract are **reasonable and consistent** with the offset



## F-16 Offsets: \$125 Million Each Poland Drives Hard Bargain for Falcons

Poland and Lockheed signed a Master Offset Agreement valued at \$6.023 billion as part of Poland's procurement of 48 F-16 C/D Block 52 aircraft. The 10-year agreement details a series of specific offset projects designed to bring **high technology, new jobs and growth to the Polish economy**.

Poland's Deputy Minister of Economy said, "The agreement is intended to enhance Poland competitively in the **global economy, create jobs and enhance local labor market skills**. It was in the interest of Lockheed Martin to conclude this agreement **allowing the sale of the F-16s to proceed**, and it is in our interest to take advantage of the unique opportunities that a strategic economic relationship with the United States provides us. This agreement is a success for Poland, and the long term benefits to the Polish economy will allow us to play a full role in the new competitive environment of the European Union. "

